



## U.S. OPTIONS

Unlike SPY and other ETF options, Cboe's® Mini-SPX (XSP<sup>SM</sup>) index options provide traders the ability to trade right up to the market close on expiration day. XSP is European style and cash settled, meaning there is no delivery of unwanted shares, lowering the risk that a broker will prevent a same day trade or force settlement before the close. XSP also offers additional benefits beyond those of SPY, including global trading hours allowing traders to react to market events around the clock.

## Cash Settlement

Example: Both XSP index options and SPY ETF options close at 502.30 on March 1st

## XSP Index Options

- Customer long 1 XSP Mar1 503 Call
- Position settles to cash
  - 1 contract x \$1.50 x 100 = \$150 credit to account
- No residual position

## SPY ETF Options

- Customer long 1 SPY Mar1 503 Call
- Customer exercises call option
  - Pays \$390 for 100 shares = \$39,000 cash outlay
- Long 100 share residual position the next trading day

## Certainty of Settlement

Example: Both XSP index and SPY ETF close at \$502.30 on March 1st. Market moves higher to \$503.50 after the market close.

## XSP Index Options

- Customer short 1 XSP Mar1 503 Call
- The Close is the Close!
- Position expires worthless – no additional debit or credit to account
- No residual position

## SPY ETF Options

- Customer short 1 SPY Mar1 503 Call
- Long option holders have ability to "contra-exercise" an option after the market close (until ~5:30 p.m. ET)
- Likelihood the position will be short 100 shares as the option holder may have exercised after hours

## No Risk of Early Exercise or Assignment

## XSP Index Options

- European style
- No early exercise or assignment
- No dividends
- Can trade out of positions prior to expiration

## SPY ETF Options

- American style
- Possible to exercise prior to expiration
  - Calls exercised for dividend considerations
  - Puts exercised for interest considerations
- Can trade out of positions prior to expiration
- Flip side of exercise is assignment – you may be assigned into stock position prior to expiration

## Potential Tax Savings with Index Options\*

Investor A and Investor B both made \$50,000 in options trading profits at the end of the year. Both are in the 32% tax bracket and filing jointly. Their long-term capital gains tax rate is 20%

	Index options trader	ETF options investor
Total profits	\$50,000	\$50,000
Short-term capital gains tax (32%)	\$6,400	\$16,000
Long-term capital gains tax (20%)	\$6,000	\$0
Total tax	\$12,400	\$16,000
Profits after tax	\$37,600	\$34,000

➤ Investor A, who's taxed at the 60/40 tax rate, has a potential tax savings of \$3,600

[Click here to view XSP Contract Specs](#)

\* Under section 1256 of the Tax Code, profit and loss on transactions in certain exchange-traded options, including SPX Options, are entitled to be taxed at a rate equal to 60% long-term and 40% short-term capital gain or loss, provided that the investor involved and the strategy employed satisfy the criteria of the Tax Code. Investors should consult with their tax advisors to determine how the profit and loss on any particular option strategy will be taxed. Tax laws and regulations change from time to time and may be subject to varying interpretations.

Global Trading Hours (GTH) The trading hours for options on the SPX, SPXW (SPX Weeklys and SPX End-of-Month), and XSP (Mini-SPX) begin at 8:15 p.m. Eastern time and end at 9:15 a.m. Eastern time. Curb session begins at 4:15 p.m. Eastern time and ends at 5:00 p.m. Eastern time. Please visit the [Global Trading Hours](#) page for more details.

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